

## **General Fund Budget**

The Finance Committee of the City Council has spent the last three weeks, the allowable statutory period, reviewing the budget submitted by the Mayor on May 1st. The Committee met extensively with the CFO, heard department presentations, and asked many questions. Under state statute it is important to remember the Council only has the power to reduce appropriations, not add to them.

There is no question the first time through this process is a learning experience for all parties. The Committee has only been meeting for four months total and had to absorb a phenomenal amount of information to evaluate this budget. Over the next year the Committee will have the opportunity to spend time understanding the operations of the City and its entities in much greater depth and detail to inform future budget processes. Such understanding may allow the budget review to more specifically review operations and programs in a more comprehensive manner.

This year, although the review was informed by substantial information, the Committee review focused more on general areas such as budget changes, as opposed on specific programs. Nonetheless, the budget being presented has been reduced by \$838,570 in operating expenses and by \$2,200,000 in reserve appropriations for a total of \$3,038,570. The major focus areas were new programs, new positions, large budget increases, departmental consolidations and reserve accounts, among other items. The Committee spent considerable time on understanding the revenue which funds the budget and the challenges each significant revenue provides in terms of consistency.

The descriptions below will start with the specific reductions from the Mayor's proposed budget the Committee is recommending. The report will then discuss the important part of revenue in this budget and the significant recommendations the Committee is making in terms of revenue. Lastly, the report will describe the work the Committee intends to undertake in the future to enhance our role in budget oversight and efficiency.

The Committee is proud to offer the City Council our recommendations on what is an historic budget for Framingham. Not only is it our first City Council approved budget, if the Committee recommendations are approved, it is the first budget in the Proposition 2 ½ era (1981) and likely well before, featuring no tax levy increase. This is a significant step designed to bring economic benefit to all taxpayers. The Committee is ready to answer any questions the councilors may have.

## **Expenses**

At the outset of our process the overall budget presentation provided by the CFO and Mayor was reviewed. Some clarity is important as to the expense budget. The presentation to the Council indicated the budget increased \$6.6M or 2.3%. In reality, the expense budget is really proposed to increase \$9,106,993 or 3.3%. The reason for the discrepancy is the use of free cash. Last year over \$5M of free cash was appropriated to reserve funds. Although technically a stabilization fund transfer is an appropriation, it is not a true expenditure of money. In reality it is an internal transfer, as the City still has the money available to spend. If you disregard the transfers proposed this year and made last year, actual spending is at the higher level. The spending distinction is important to understand to see the real cost of operating the City.

Although the Committee is recommending reductions in the Mayor's proposal, it is important to remember this is still a budget with some overall expansion. There is a reorganization and added position in the Inspectional Services Department, two in the Mayor's office and .5 in the City Council office. The project manager position in Facilities has once again been funded, as has the new sustainability coordinator.

Another important point to consider is the Committee did meet with the School Department and discuss the budget extensively. Ultimately, seeking reductions in the school budget was not actively considered at this time. Although the Committee recognizes the school budget is a large part of the overall spending, there is an elected body specifically responsible for dissecting and evaluating the budget, much like the City Council did with the municipal budget. Given the school budget was presented at the target level given to them last Fall by the CFO, and the School Committee approved the spending, the Committee accepted the budget. In future years the Committee hopes to engage earlier and more extensively in the process in order to have more direct influence regarding school budget issues.

### **Expense Recommendation Summary**

The following reductions are recommended to be made from the proposed budget:

***Fire Department/Salary and Wages.*** Eliminates the new position of an additional dispatcher. The proposed dispatcher position would be a second position in the fire alarm operations room on a Monday to Friday basis only. Although the Committee understands the potential need for assistance in that room during business hours, the cost is higher than the Committee felt was warranted. As of now due to the collective bargaining agreement, the second dispatcher would have to also be a uniformed Firefighter. The annual cost of

adding an additional firefighter is \$95,390. The Committee felt this was excessive for an exclusively dispatch position. Instead the Committee recommends the City administration study the potential of combining the dispatch operations with the Police Department, as recommended in the Charter Commission report. If it is not possible for technical reasons, the Committee recommends the use of a civilian dispatcher in this second position be negotiated. The cost of civilian full-time dispatcher in the police department is just under \$50,000 a year, which is considerably less than the proposal.

**Police/Small Capital.** The small capital item for evidence tracking software, which is budgeted at \$25,000, is eligible for funding from the Law Enforcement Trust Fund. This trust fund can be spent for certain expenditures by the police department and is funded by funds seized from criminal investigations. Due to a recent large receipt, the fund has approximately \$2,000,000 available.

**Police/Fuel.** The fuel for police vehicles was budgeted at \$4 a gallon. The current price is in the mid \$2 range per gallon. Although there is a likelihood of increase the Committee felt \$4 is unlikely as it would reflect a retail price of gas of nearly \$4.50 as the City is not subject to gasoline tax. The \$50,000 reduction in this budget still allows for an average price over the fiscal year of \$3.50 which equates to nearly \$4.00 retail. This should be revisited at some point during the fiscal year for a further reduction or supplemental appropriation based on the price of fuel.

**EDIC.** The EDIC was appropriated \$125,000 during FY 2018 to a special purpose fund. This allows the EDIC, due to the nature of their activities, to spend the money over more than one fiscal year. Given the EDIC is almost 11 months into the fiscal year and still has a balance in the fund of approximately \$86,000, the Committee determined that appropriating additional money into the fund at this time is not warranted. Instead the Committee would like to take time to meet with the EDIC to discuss both their overall efforts and the use of their funds with the idea the Council can revisit this in the Fall and make a supplemental appropriation if needed.

**OPEB.** The committee recommends reducing the OPEB contribution from \$500,000 to \$250,000. The rationale for this change revolved around the complex issue of the value of funding the OPEB deficit. First it is important to remember the practice of current funding of retiree health insurance has been in effect since the inception of the program. The quantifying of the future cost is an accounting standard launched in the last decade. Although it tells a compelling story with big numbers, this “deficit” has always been with us, it is just more quantifiable. The Committee rationale is the value of \$500,000 toward a \$300M deficit is miniscule, compared to the value it represents in our current expenditures.

This is a subject that deserves significantly deeper discussion than the Committee was able to give it during the budget process. Some members felt funding at zero would be appropriate, whereas others see value in long term funding. All members agreed both \$500,000 and \$250,000 are arbitrary numbers. The decision was to fund it for now at the midway point of the recommendation, which is \$250,000. This still shows a good faith effort on the City's part and allows more time to discuss our forward-looking philosophy as to how to deal with the issue.

**Mayor's Office/Salary and Wages.** The Committee discussed this issue at the greatest length due to the significant growth in the budget. The proposed budget essentially requests authorization of five new positions. They include the two senior adviser positions discussed at length by the Council earlier this year, and three new positions proposed in the budget including a Communications Director, a Diversity Officer and the Citizens Participation Officer.

The Committee does not disagree with many of the objectives stated by the Mayor, however there was a concern with the proposal of adding five new positions at a significant salary level. The City already has a Public Information Officer position paying the individual almost \$90,000 and it is hard to justify an additional \$100,000 position at this time. The Committee strongly concurs with the Mayor's focus on diversity, however the Committee suggests the resources of both the Citizen's Participation Officer and the Human Resources Department could be used to more directly address the issue at this time. The Committee continued to discuss the concerns previously expressed about the two new positions added to the budget by the Mayor last February.

Ultimately the Committee decided on a comprise measure attempting to recognize the stated needs of the Mayor, while also addressing the concerns of rapid expansion both in terms of people and costs in the executive office. The Committee vote unanimously to recommend the Council reduce the requested personnel line item by \$280,000. This reduction will allow the Mayor to maintain two of the five requested positions. The Charter mandated Citizens Participation Officer and one of the two Senior Advisor positions were authorized. The Committee recommends the Mayor be allowed to choose which of the two Senior Advisor positions she retains. The Committee indicated to the Mayor an openness to consider these needs further as the transition continues.

**Mayor's Office/Professional Development.** The Committee recommends a reduction of \$10,000 in the Professional Development line item of the Mayor's office. This line features a substantial increase and there was limited background provided as to what the expenses were to be utilized for. Given the

reduction of the three positions and the limited background information, the Committee believes this is a reasonable reduction.

***Planning and Economic Development/Salaries and Wages.*** The Committee met twice with the Division Director to discuss the consolidation of several departments into this Division. The Conservation Commission and Planning Board staff are becoming part of the Division as required by the Charter. This is an additional 6 full time employees. The Committee was disappointed there were no immediate efficiencies from the consolidation of the departments, but in fact an additional .2 position was being requested. After discussion, although the savings is minimal, it was decided to not recommend the addition of a new .2 position at this time. The Committee requested a Division reorganization plan be presented as soon as possible for review and potential savings.

***Capital Stabilization Fund.*** In recent years free cash has been transferred to the Capital Stabilization Fund (CSF) for the purposes of pre-paying the cost of future capital projects, specifically Fuller and the Memorial Building. There is currently over \$10,000,000 in the fund and the amount designated for Fuller (\$8,000,000) is fully available.

The Committee acknowledges the appeal of being able to buy down the cost of a capital bond. However, the real impact and financial cost of doing so also should be considered. If the City were to deposit an additional \$2,200,000 in the CSF this year, the cost on the tax rate would be about \$65 for the average household. Further the \$2,200,000 would become a permanent part of the tax levy in future years. If the \$2,200,000 is used as a part of a broader plan to lessen the tax levy the result would be an immediate and permanent \$65 savings on the average tax bill and about a \$5 a year additional cost over each year over the life of the bond when it is issued. When the bond is paid off, the cost would disappear.

The bottom line is the Committee decided it makes more fiscal sense to leverage capital funds for significant building projects over the life of the bond. Assigning expenditures to appropriate revenue is part of the Committee's overall strategy to reduce the tax levy.

## **Revenue**

The Committee spent a significant amount of time discussing the revenue funding the budget. Clearly, Framingham is in a strong economic period. The budget submitted by the Mayor proposes to use substantial revenue growth in three principal areas. The first is new growth in the tax levy, the second is a 2.2% increase in the existing levy and lastly is net state aid. The rise in tax

levy new growth and state aid are at or near historical highs. State aid is forecast to rise almost \$4.8M, tax levy new growth approximately \$3.1M and the 2.2% addition to the existing levy is about \$4.2M. The other areas of revenue growth are nominal and are a small fraction of total revenue.

FY 19 is the latest of recent years of well above average revenue growth. The concern the Committee has is high revenue growth is not going to be sustainable. For example, the tax levy new growth ten-year average is about \$1.8M. The Committee believes going forward projected revenues in this area should be utilized around the ten-year average or some similar formula, with the balance being used to subsidize the levy increase. This is more sustainable than using the entire projection as revenue. State aid is similar as the \$4.8M increase is an historical high and is likely unsustainable.

Reviewing a ten-year history of revenue and free cash generation it is crystal clear the Town of Framingham saw a significant revenue spike in the last five years. Despite in recent years not taxing to the full 2.5% levy, the Town still collected significant excess revenue the last five years averaging about \$7M a year. If the money that was deposited into reserve accounts is added to the figure, as opposed to money actually spent, the number is around \$10M a year. The excess amount collected during the prior five-year period was about \$2M. The positive result of the significant excess revenue collection of the last five years is high free cash balances and stabilization fund increases.

Although the Committee appreciates the value brought by the increase in reserves, the Committee also believes the City has a unique opportunity and responsibility to share some of the excess with the taxpayers. For example, if just 50% of the excess collected over the last five years had been shared with the taxpayer there would have been no need to increase taxes at all in most if not all of those years.

The Committee determined this year it would be possible and proper to utilize the excess free cash generated from the excess collections to buy down the tax levy increase. To do so the Committee recommends using only the free cash already recommended to be utilized in the budget. This is achieved by the reductions recommended above in the expense category and the substitution of a bonding for a small amount of free cash targeted for the capital budget. (Further explanation in the capital budget section.) By doing this the City can keep all services intact, see moderate growth and expansion in both the school and municipal services and not raise the levy. Homeowners can share in the advantage of robust growth in revenues by lowering the existing tax levy for the first time since Proposition 2 ½ was enacted in 1981.

Utilizing free cash in any manner must be carefully considered. In this instance the City is not spending free cash to buy services that will need replacement funding for in future years if free cash is unavailable. In this

instance the City is using free cash to buy down the tax rate, essentially offering a refund or rebate to the taxpayer. The worst-case scenario of free cash not being available is to raise the rate in future years, as has been done every year for the last 35. However, in the meantime residents can have at least a one-year reprieve without having an increase in the levy.

### **Future Budget Consideration**

The Committee was charting a new course working on this budget. The time was little, and the work was large. The Committee is going to debrief in the near future to review the process and determine what can be done. Another focus will look at the tasks that can be undertaken during the balance of the year to understand the operations of departments and the relationship to the budgets. There are specific areas to be reviewed on a citywide basis such as use of cars and cellphones. The potential consolidation of services between the municipal and school departments will again be looked at. The Committee is proud of the work done this year and believe further improvements in the processes will allow even more valuable impacts to occur in the future.

### **Summary of Operating Budget Recommendations**

1. The following is a summary of the reductions recommended:

<b>Line Item</b>	<b>Reduction</b>
Fire Department/Salary and Wages	\$95,390
Police/Small Capital	\$25,000
Police/Fuel	\$50,000
EDIC	\$125,000
OPEB	\$250,000
Mayor's Office/Salary and Wages	\$280,000
Mayor's Office/Professional	
Development	\$10,000
Planning Board/Salary and Wages	\$3,180
Capital Stabilization Fund	\$2,200,000
<b>Total</b>	<b>\$3,038,570</b>

2. The final budget motion will include language authorizing all the municipal positions and the correspondent salaries for FY 2019 by individual. The document is entitled **FY 19 Authorized Salaries** and it reflects all the positions funded in this budget.

3. The state law requires cities to adopt line item budgets and future transfers are then subject to City Council approval. There is a memo from the City Solicitor laying out the process and it is included as part of this report.

## **Enterprise Fund Budget**

This is a critical area of importance the Committee discussed at some length. A key area of focus was the Committee's concern with the practice of operational funding for the Capital Projects Division of the Department of Public Works salaries coming from long term financing. The Committee is not prepared to make a specific recommendation at this time, however there is a general agreement with the CFO to begin the transition of these salaries to an operating line item starting no later than FY 2020.

Water and Sewer operations, infrastructure needs and retained earnings are all areas the Committee is committed to reviewing carefully going forward. The Committee is keenly aware of resident's concern regarding the affordability of water and sewer rates. As a measure of fiscal responsibility, the Committee voted to reduce the operating portions of both the water and sewer budget approximately 1%, or \$50,000 each. The specific line item for this deduction will be determined before the final vote.

## **Capital Budget**

The capital budget is another significant endeavor the Committee did not have the amount of time preferred to review in the full depth desired. This will not be a problem in the future as the Charter requires the capital budget to be delivered to the Council in November. When the Charter procedure is followed it clearly will allow the Committee a substantially longer and in-depth review period.

The capital budget is not subject to the same calendar deadlines as the operating budget. The Committee gave some consideration to delay consideration of this budget to the summer or even the fall. However, this would have had the impact of delaying projects set for this summer. This and the fact the proposal is relatively modest this year led us to considering the capital items simultaneously with the operating budget in the shortened time period.

Following are the adjustments made to the Mayor's capital budget request.



## **General Fund Capital Budget**

**Source of Funds.** The capital budget this year departed with practice of recent years and recommended a significant amount of funding (\$3M) from free cash be used in the capital budget. This essentially was done due to the overall smaller amount of free cash being recommended in the operating budget. Some of the projects being suggested for free cash make sense (i.e. library circulation desk). However, there are other projects that are almost always bonded, and the Committee felt bonding was the more prudent approach. (i.e. Beaver Street Bridge). By following the customary practice, we are able to utilize some additional free cash as described, while appropriately funding the projects.

Therefore, the Committee recommendation is the following projects source of funds be changed from Free Cash to Bond as past practice, and the free cash be used to reduce the tax levy in the operating budget:

<b>Beaver Street Bridge</b>	\$ 900,000
<b>Edgell Road Culvert</b>	\$ 310,000
<b>Annual Water Improvements</b>	\$ 250,000
<b>Stapleton Rubber Floor</b>	\$ 105,000
<b>TOTAL</b>	<b>\$1,565,000</b>

**Archived Document Scanning.** This proposal is recommended to be delayed. The source of funds is free cash and the Committees does not recommend transferring this free cash to the operating budget but be retained in free cash for future funding of this project. The Committee endorses the project however it was felt it should be more formally structured. As of now it is on a voluntary basis per department, without specific guidelines as to who must participate and what must be scanned. Further there is no specific plan as to how to make the documents available to the general public. The Committee would like to see a comprehensive plan before continuing to add money to this endeavor.

**DPW Highway Truck.** One of the three trucks being requested did not meet the stated criteria the DPW utilizes to replace trucks. The committee recommends the reduction of \$68,393 from this item.

**Mary Dennison Park.** The scope of work for this project requires it be increased to \$661,000.

The balance of the general fund capital budget is recommended as presented.

## **Enterprise Fund Capital Budget**

The only change recommended is to concur with the withdrawal of the request for a dump truck in the amount of \$72,153.